

Fiscal Note

Fiscal Services Division



HF 2362 – Military Property Tax Exemption Increase (LSB5737HV)
Analyst: Jeff Robinson (Phone: (515-281-4614) (jeff.robinson@legis.iowa.gov)
Fiscal Note Version – New

Description

House File 2362 increases the **Military Service Property Tax Exemption** from its current level of \$1,852 of property value to \$2,000. The bill also strikes a higher property tax exemption amount (\$2,778) for veterans of World War I. The change is first effective for property taxes due during FY 2018.

Background

For the purposes of the property tax exemption, the term veteran is defined in Iowa Code section **35.1**, and in certain circumstances the exemption extends to the surviving spouse or minor children of a deceased veteran.

As a tax exemption, the dollar amount of exempt value is not subject to property taxation. Iowa Code section **426A.2** provides for a payment to local governments from the State General Fund in an amount equal to \$6.92 per thousand dollars of value exempted under the Military Service Property Tax Exemption. In addition, the state school aid formula requires all taxed value in the state to pay a basic levy of \$5.40 per thousand dollars of value to finance schools. The school aid formula requires an increase in the State General Fund appropriation for school finance whenever property value is made exempt from property taxation.

Assumptions

- Over the past five years, the number of properties benefiting from the exemption has decreased from 173,714 in FY 2013 to 152,870 in FY 2017, an average annual decrease of 5,211 per year. This annual decrease is assumed to continue.
- The average property tax rate on property qualifying for this credit was \$35.46 per thousand dollars of taxed value in FY 2016, and this tax rate is assumed for future fiscal years.
- The State General Fund reimburses local governments for \$6.92 per thousand dollars of reduced property tax value through the State General Fund Military Service Tax Credit appropriation.
- The State General Fund reimburses local school districts for \$5.40 per thousand dollars of reduced property tax value through the State School Aid Formula.
- The remaining tax rate of \$23.14 per thousand dollars is a local government finance impact.
- The increase from \$1,852 to \$2,000 is \$148, or 8.0%.

Fiscal Impact

Increasing the Military Service Property Tax Exemption by \$148 will increase the average benefit to qualified property owners by \$5.25 each year, and the benefit across all qualified properties by a total of \$775,000 beginning in FY 2018. The benefit is financed through the following changes to government finances:

- An increase of \$151,000 in the State General Fund Military Service Tax Credit appropriation.
- An increase of \$118,000 in the State General Fund School Aid appropriation.
- A decrease of \$506,000 in local government revenue. Schools will make up the majority of their revenue reduction through higher tax rates. Other local governments will replace the

reduced revenue if they are able and willing to set property tax rates higher than would otherwise be the case.

Military Service Property Tax Exemption Impact on the State General Fund and Local Government Finance			
	Current Law FY 2018 Projection	New Law FY 2018 Projection	Increase
Number of Exemptions	147,659	147,659	0
Taxed Value of Each Exemption	\$1,852	\$2,000	\$148
Average Property Tax Rate	\$35.46	\$35.46	\$0.00
Total Value of Exemption to Property Owner	\$9,697,050	\$10,471,976	\$774,926
Average Tax Value of Each Exemption	\$65.67	\$70.92	\$5.25
Distribution of Fiscal Impact of Exemption Increase (in millions)			
	Current	New	Increase
State General Fund Credit Appropriation	\$1.892	\$2.044	\$0.151
State General Fund School Aid Appropriation	1.477	1.595	0.118
Local Government Impact	6.328	6.834	0.506
Total	<u>\$9.697</u>	<u>\$10.472</u>	<u>\$0.775</u>

The fiscal impact in years past FY 2018 will be similar, but will decline slightly each year if the number of Military Service Property Tax Exemptions continues to decline.

Sources

Department of Management Property Tax Files
Legislative Services Agency Analysis

/s/ Holly M. Lyons

February 24, 2016

The fiscal note for this bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.